

Article 4: City Employees' Retirement System

Division 14: Deferred Retirement Option Plan

*("Deferred Retirement Option Plan"
added 3-4-1997 by O-18385 N.S.)*

§24.1401 Purpose and Duration

- (a) Effective April 1, 1997, a deferred retirement option plan (DROP) is created and offered to Members on a voluntary basis as an alternative method of benefit accrual in the Retirement System as set forth in this Division.
- (b) DROP is created to add flexibility to the Retirement System. It provides Members who elect to participate in the program access to a lump sum benefit in addition to their normal monthly retirement allowance at their actual retirement. DROP is intended to be cost neutral regarding plan funding.
- (c) The DROP plan shall be offered on a trial basis for a period of three years commencing April 1, 1997 and ending March 31, 2000. During this three-year trial period, DROP shall be evaluated by the City on a cost basis. During and by the end of this three-year period, the city will determine whether the costs of DROP, including but not limited to any increase to the employer contribution rate recommended by the System's actuary specifically related to DROP, are greater than any savings realized as a result of the implementation of DROP. If the City determines DROP to not be cost effective, the City may determine not to extend DROP for elections that would otherwise have been made by Members after April 1, 2000. If the City determines DROP to be cost effective, or takes no action to eliminate further DROP participation, DROP shall become a permanent benefit effective April 1, 2000.
("Purpose and Duration" added 3-31-1997 by O-18392 N.S.)

§24.1402 Eligibility, Duration of DROP Participation, and Waiver

- (a) Any Member, except a Safety Member who elects to accrue benefits pursuant to Section 24.0403(g), who has attained the age and service necessary to be eligible for service retirement shall be eligible to participate in DROP.
- (b) Any member who elects to participate in DROP shall voluntarily and irrevocably:

- (1) Designate a period of participation not to exceed sixty (60) consecutive months.
- (2) Cease, from and after the date the Member begins participating in DROP, to accrue benefits under any other Division of this Article.
- (3) Have DROP benefits credited to a DROP Participation Account pursuant to Section 24.1404.
- (4) Accrue benefits from and after the date the Member begins participating in DROP pursuant to the terms of this Division.
- (5) Receive benefits from the Retirement System upon termination of City employment at the time and in the manner provided in the relevant Sections of this Article.
- (6) Agree to terminate City employment upon completion of the designated DROP participation period.
- (7) Execute such waivers with respect to age and other discriminations in employment laws as are required by the City and the Retirement System.

(“Eligibility, Duration of DROP Participation, and Waiver” added 3–31–1997 by O–18392 N.S.)

§24.1403 Termination of DROP Participation

- (a) DROP participation may be terminated by voluntary termination of employment at any time before the completion of the DROP participation period designated by the Member on the appropriate DROP participation form.
- (b) DROP shall be terminated by the first occurrence of any one of the following events:
 - (1) upon the completion of the DROP participation period designated by the Member on the appropriate DROP participation form.
 - (2) involuntary termination of employment. In the event a termination for cause is reversed, a Member’s participation in DROP, less any benefits previously distributed pursuant to Section 24.1407, shall be reinstated for the duration of the original DROP participation period initially designated by the Member on the appropriate DROP participation

form.

(3) death of the Member.

(4) approval of disability retirement benefits under the terms of this article.
(*“Termination of DROP Participation” added 3-31-1997 by O-18392 N.S.*)

§24.1404 DROP Benefits and Participation Accounts

- (a) A DROP Participation Account is a “nominal” account established within the Retirement System on behalf of each DROP participant. All benefits accrued pursuant to this Division shall be accounted for in the DROP Participation Account. A DROP participant shall not have a claim on the assets of the Retirement System with respect to his or her DROP Participation Account, nor shall there be any assets set aside for any DROP participant which are separate from all other Retirement System assets.
- (b) All amounts credited to the member’s DROP Participation Account shall be fully vested.
- (c) A Member’s DROP Participation Account shall be credited with:
- (1) an amount, credited monthly, which is calculated in the same manner as an Unmodified Service Retirement Allowance using the factors for age, service, and Final Compensation in effect on the effective date of DROP participation. This amount shall be increased annually pursuant to the COLA provisions described in Section 24.0531.
 - (2) an amount, credited annually, representing the Annual Supplemental Benefit described in Section 24.0404 based upon the Member’s Creditable Service on the day before the Member elects to participate in DROP.
 - (3) an amount, credited bi-weekly at the end of each pay period, equal to 3.05% of the Member’s Base Compensation.
 - (4) an amount, deducted from the Member’s salary and credited bi-weekly at the end of each pay period, equal to 3.05% of the Member’s Base Compensation. This amount shall be picked up and paid by the City for the sole purpose of obtaining tax deferral and in accordance with the requirements of Internal Revenue Code Section 414(h)(2).

- (5) an amount, representing interest, the rate and manner of crediting to be determined by the Board through rules and regulations adopted pursuant to Section 24.0901. These rules and regulations shall have the same force and effect as a duly adopted ordinance.

(Amended 8-7-2000 by O-18835 N.S.)

§24.1405 Additional Drop Provisions

- (a) Effective on the date that a member elects to participate in DROP, employee and employer contributions pursuant to Divisions 2, 3 and 8 of this Article shall cease with respect to that Member.
- (b) A Member who elects to participate in DROP and becomes disabled during the period of DROP participation shall be eligible to apply for disability retirement benefits. In the event the application for disability retirement benefits is approved by the Board:
 - (1) the disability retirement benefit shall be calculated using the factors of age, service, and final compensation in effect the day before the effective date of DROP participation.
 - (2) all amounts in the Member's DROP Participation Account shall be distributed pursuant to Section 24.1407.
- (c) In the event a Member dies during the period of DROP participation, eligible survivors shall be entitled to receive:
 - (1) all amounts in the Member's DROP Participation Account pursuant to Section 24.1407, including the retiree death benefit in Section 24.0714.
 - (2) if eligible, a Special Death Benefit pursuant to Sections 24.0705, 24.0706, 24.0709, 24.0710, 24.0710.1, 24.0710.2, and 24.0710.3 using the factors of age, service and final compensation in effect on the date of the Member's death. The Special Death Benefit shall be paid in lieu of any survivor continuance otherwise payable in the form of benefit determined pursuant to Section 24.1404(c)(1).
 - (3) if ineligible for a Special Death Benefit, the designated beneficiary shall only be entitled to the amount and form of benefit determined pursuant to Section 24.1404(c)(1) in accordance with the Member's designation at the time of DROP election.

- (d) A Member who elects to participate in DROP shall qualify as a Health Eligible Retiree and be eligible to receive Post Retirement Health Benefits pursuant to Division 12 upon completion of the period of DROP participation and separation from City service.

(“Additional Drop Provisions” added 3–31–1997 by O–18392 N.S.)

§24.1406 Designation of Beneficiary

- (a) A Member who elects to participate in DROP shall designate a beneficiary. Member’s beneficiary designation shall be applicable to all distributions pursuant to Section 24.1407.
- (b) If the designated beneficiary predeceases a DROP participant who then dies before designating a new beneficiary, all distributions pursuant to Section 24.1407 shall be made to the estate of the DROP participant.
- (c) No beneficiary designation made under this Section shall be in abrogation of a Member’s community property obligations under applicable California law.
(“Designation of Beneficiary” repealed and reenacted on 3–31–1997 by O–18392 N.S.)

§24.1407 Payment of Benefits

- (a) Upon the simultaneous termination of DROP participation and City employment, a Member shall be entitled to receive:
 - (1) the monthly retirement allowance in the amount determined under Section 24.1404(c)(1) that was credited monthly to the Member’s DROP Participation Account at the date of termination of DROP participation; and
 - (2) the amount for which the Member is eligible under the Annual Supplemental Benefit described in Section 24.0404 based upon the Member’s Creditable Service on the day before the Member’s election to participate in DROP.
 - (3) All amounts credited to the Member’s DROP Participation Account on the effective date of termination of DROP participation.
- (b) The normal form of payment shall be a lump sum distribution, provided, however, a Member may elect to receive an annuity pursuant to this Section. If the Member elects to receive an annuity:

- (1) the annuity shall be in any form established by the Board and subject to applicable provisions of the Internal Revenue Code.
 - (2) the annuity shall be the actuarial equivalent of the amount credited to the DROP Participation Account at the termination of the DROP participation period. For this purpose, "actuarial equivalent" is an amount that has the same present value as the amount credited to the DROP Participation Account at the termination of the DROP participation period based on interest rates and mortality tables recommended by the System's actuary and adopted by the Board as a part of rules and regulations pursuant to Section 24.0901. The annuity shall be calculated using the age of the DROP participant and, if a joint and survivor option is elected, the age of the beneficiary on the date of termination of the DROP participation period.
- (c) No COLA or supplemental benefit or later adjustment shall be made with respect to any annuity payable pursuant to Section 24.1407(b).
(*"Payment of Benefits" added 3-31-1997 by O-18392 N.S.*)

§24.1408 Compliance with Applicable Provisions of the Internal Revenue Code

- (a) It is intended DROP shall not jeopardize in any way the tax qualified status of the Retirement System under the rules and regulations of the Internal Revenue Service. The Board shall have the authority pursuant to Section 24.0901 to adopt rules and regulations to the extent necessary or appropriate for DROP to comply with applicable Federal laws and regulations, with such action having the same force and effect as a duly enacted ordinance.
- (b) Notwithstanding any other provision in this Article, benefits provided pursuant to this Division shall be subject to the requirements of the Internal Revenue Code (Code) and regulations issued thereunder as necessary for the Retirement System to remain a tax qualified retirement plan, including, but not limited to, the following:
 - (1) The limitations of Section 415 of the Code relating to the amount of benefits that can be paid.
 - (2) The limitations of Section 401(a)(17) of the Code relating to the amount of compensation that can be taken into account for benefit accrual.
 - (3) The limitations of Section 401(a)(9) relating to the time that benefit

payments must begin.

(4) The limitations of Section 401(a)(31) relating to the rollover of benefits.

(5) The limitations of Section 401(a)(25) relating “definitely determinable” benefits.

(“Compliance with Applicable Provisions of Internal Revenue Code” added 3-31-1997 by O-18392 N.S.)

§24.1409 Employment Status during DROP Participation

A Member who elects to participate in DROP shall have all of the rights, privileges, and benefits, and be subject to all other terms and conditions of active employment, including, but not limited to, the City Flexible Benefits Plan.

(“Employment Status during DROP Participation” added 3-31-1997 by O-18392 N.S.)

